AOGA

OIL & GAS:
FUELING ALASKA'S ECONOMY

House Resources Committee – HB 72

February 18, 2013
Kara Moriarty, Executive Director

AOGA Member Companies

PIONEER
NATURAL RESOURCES ALASKA

Statoil

XTO ENERGY

Apache

Hilcorp Alaska, LLC

REPSOL

ExxonMobil

bp

Alyeska pipeline
SERVICE COMPANY

TESORO

PETRO STAR INC.
EXCELLENCE IN ENERGY

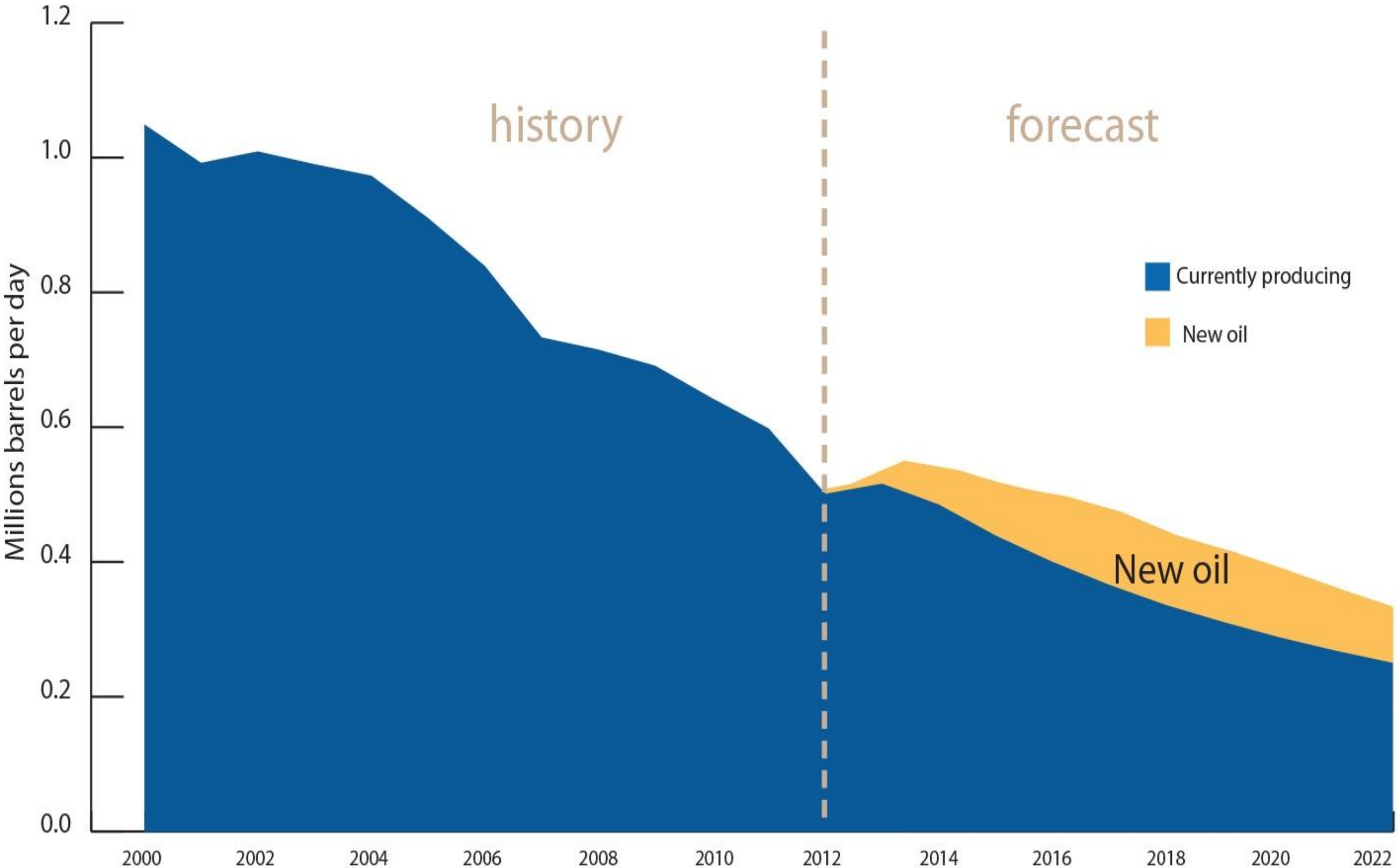
eni
petroleum

Chevron

FLINT HILLS
RESOURCES
Alaska

Alaska North Slope Production

FY 2000-2012 and Forecasted FY 2013-2022



Source: Department of Revenue – Dec. 2012

Governor Lays out Principles for Oil Tax Reform

Anchorage Daily News, Jan. 6, 2013:

Reform must:

- Be fair to Alaskans
- Encourage new oil production
- Be simple and restore balance
- Be durable and long-term in nature

Governor Lays out Principles for Oil Tax Reform

Anchorage Daily News, Jan. 6, 2013:

Reform must:

- Be fair to Alaskans
- Encourage new oil production
- Be simple and restore balance
- Be durable and long-term in nature
- *AOGA Recommendation: Avoid changes that artifically create "winners & losers"*

HB 72 Component: Progressivity

- *AOGA supports the elimination of progressivity*

1) Progressivity attacks and destroys one of the few strategic advantages that Alaska has, which lies in its economic remoteness.

2) Progressivity bring extraordinary complexity to the tax.

HB 72 Component: Tax Credits

There is no tax credit liability for the State until the investor invests here

1) *AOGA does <u>not</u> support repeal of Qualified Capital Expenditure Credits (QCE)*

   a) Elimination of QCE would undo significant part of competitive environment
   b) Repeal likely creates "winners & losers"

HB 72 Component: Tax Credits

2) AOGA supports extension of Small-producer tax credit

- Attracts new players to Alaska
- From testimony…has made a material difference for some companies

3) AOGA Recommendation: Extend exploration credits as well

- Support for the same reason as small-producer credit
- Exploration credits bring about exploration in a timely fashion

HB 72 Component: Tax Credits

4) AOGA opposes the current proposal to bar almost completely the transferability of "Loss Carry Forward" credit

- 10 year shelf life is unrealistically short

- AOGA Recommendation:

Increase the shelf life to 15 years

HB 72 Component: Gross Revenue Exclusion (GRE)

AOGA supports concept, but concerned it will not apply to majority of current production

- Misses 80-90 percent of potential production

- Fields likely to lose out from GRE: Prudhoe Bay, Kuparuk, Lisburne, Milne Point, Endicott, Niakuk, Point McIntyre, Alpine, PBU Satellite fields (Aurora, Borealis, Midnight Sun, North Prudhoe Bay, Orion, and Polaris) and Kuparuk satellites (Meltwater, NEWS, Tabasco, Tarn and West Sak)

AOGA Recommendation:

More needs to be done for these fields

Estimated Undiscovered Conventional Oil Resources on Alaska North Slope

	Technically Recoverable Resources			Economically Recoverable	Expected Typical
	P95	Mean	P5	@ $90/bbl	Field Size
	(Million Barrels)				
	(1)	(2)	(3)	(4)	(5)
Central North Slope	2,800	3,400	3,900	3,000	32 - 64
Beaufort Sea	400	8,200	23,200	5,800	-
Chukchi Sea	2,300	15,400	40,100	9,900	-
NPRA	400	900	1,700	500	32 - 64
ANWR	5,900	10,400	15,200	9,900	64 - 128
Total		**38,300**		**29,100**	

Source:
USGS Reports 2011–1103 and 2009-1112;
BOEM, Assessment of undiscovered technically recoverable oil and gas resources of the nation's outer continental shelf.

Components Not Addressed in HB 72

1) Minimum Tax

- *AOGA Recommendation: Minimum Tax should be repealed.*

2) Statute of Limitations & Statutory Interest

At 3 years: $0.38

$1.00 × [(1 + 0.l1/4)$^{(\text{4 compoundings per year times 3 years})}$ – 1]
= $1.00 × [1.38478 – 1] = $0.38.

At 6 years: $0.92

$1.00 × [(1 + 0.l1/4)$^{(\text{4 compoundings per year times 6 years})}$ – 1]
= $1.00 × [1.91763 – 1] = $0.92.

Components Not Addressed in HB 72

2) Statute of Limitations & Statutory Interest

- It is the combination of a 6-year statute of limitation plus the minimum 11% interest rate that is harmful.

- 6-year statute of limitations also creates uncertainty and complicated audit assessments due to inconsistent terms in regulation and inability to predict DOR's calculations

- AOGA Recommendation: Either shorten the period for DOR determinations from 6 years back to 3 years, or eliminate the 11% minimum interest rate, or both

Components Not Addressed in HB 72

3) Joint-interest Billings:

- Instead of one audit of the expenses by a joint venture (found in a joint-interest billing) for any given period, DOR audits each participant separately for its respective share of the same pool of expenses

- *AOGA Recommendation: Restore language specifically authorizing DOR to rely on joint-interest billings if it chooses to do so.*

AOGA Supports Components of HB 72

Cornerstone for significant and crucial tax reform

- Support the elimination of progressivity
- Support the concept of gross revenue exclusions
- Support the extension of the small producer tax credit

AOGA Concerns with HB 72

- Serious concerns with how the bill addresses tax credits (QCE elimination, no extension of exploration credit, and changing the loss carry forward credit)
- Gross Revenue Exclusions should be expanded to fit the majority of projects in legacy fields
- Identified other ways to improve policy (repeal minimum tax, change statute of limitations/interest rate, and allow DOR to use joint-interest billings)

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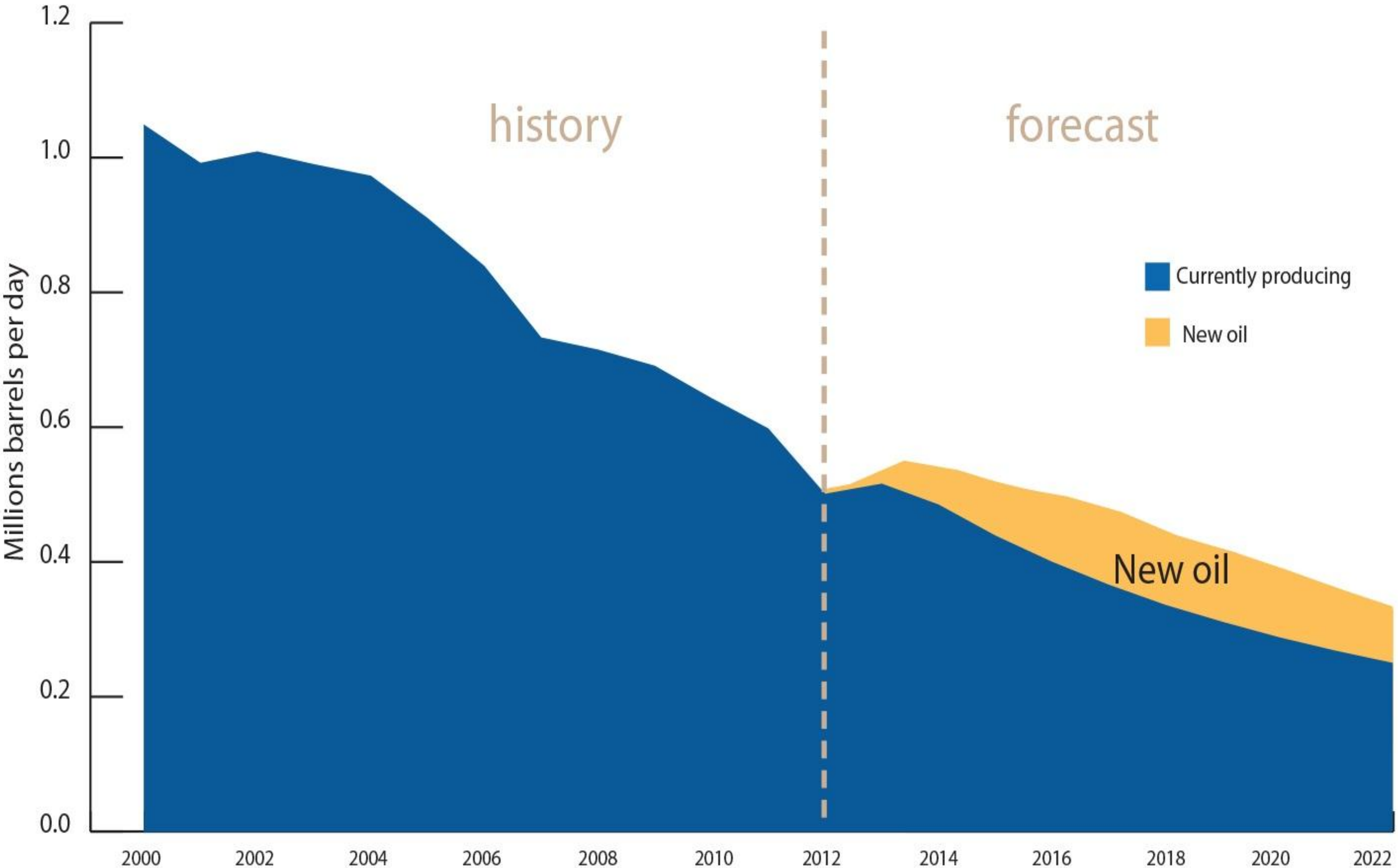
FY 2000-2012 and Forecasted FY 2013-2022



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